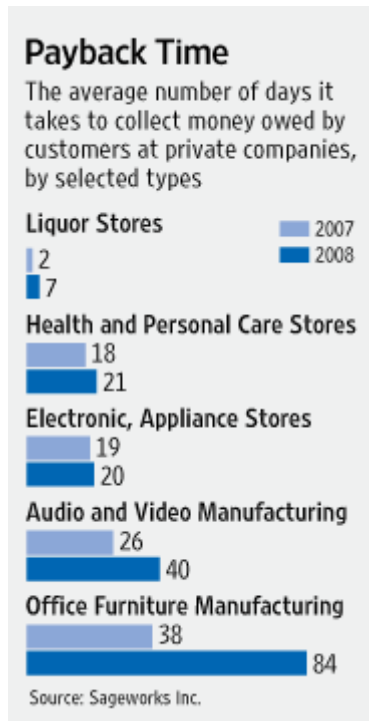


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Slow Payments Squeeze Small-Business Owners

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Small businesses are getting hit with another aftershock of the credit crisis: Customers who are delaying payment of their bills for weeks or months. The growing wave of late payers is hurting many companies that were already reeling from the economic crisis themselves. It's also damaging healthy companies.

Small businesses are hugely dependent on their cash flow, so they must either cut costs or scramble to find alternative funding if they aren't being paid on time. With money tight and bank loans hard to get, a cash-strapped company can easily be pushed to the brink.

Making matters worse, big companies typically delay payments to their smaller suppliers first -- in part because small businesses are unlikely to have teams of people devoted to chasing down their accounts receivables.

"If you look at a big company that pays in 45 days instead of 30, that's a huge amount of cash. And everyone's

looking for cash flow" right now, says Les Kirschbaum, president of ANI International Inc., a Chicago-based network of commercial receivables attorneys.

He adds that the problem for small companies is compounded because banks are even less likely to lend to a company that can't use receivables as collateral for loans and credit lines.

Artisan Shutter Co., which makes custom shutters for high-end residential and commercial buildings, started having problems with late payers as the real-estate market around its headquarters in El Cajon, Calif., tumbled last year. But the situation has gotten much worse in the past few months.

Half of the company's customers are paying late, up from about 5% before the real-estate decline started.

"The bigger they are, the less they want to give us up front," says Trish Wolfe, co-owner of the 12-year-old family-owned company.

The biggest blow came a couple of months ago when an architecture firm with several hundred employees called to say it couldn't pay the final chunk it owed on a shutter project Artisan completed for a high-end hotel development.

The hotel's construction depended on financing from [Lehman Brothers Holdings Inc.](#), and building ground to a halt when Lehman filed for bankruptcy protection in September, Ms. Wolfe says. Artisan is out \$40,000 of its \$180,000 bill, she adds.

A few days ago, Artisan laid off about 15% of its staff, leaving it with 25 employees. Ms. Wolfe and her husband, the company's founders, have raided their personal retirement accounts and racked up credit-card debt to pay bills. Now they're considering selling the building they work from and renting instead.

Melody Townsel, who runs a public-relations agency from her Dallas home, says four of her eight clients are behind in their payments, and a local start-up has been \$4,500 in arrears since June.

Ms. Townsel, who had revenue of about \$165,000 in 2007, took a \$5,000 loan from her father in July as late payments started falling further behind. "It was the critical bit of cash flow I needed to keep going," she says.

Late-paying customers have forced some small companies to fall behind on payments to their own suppliers. Steve Goldberg, co-owner of TLS International LLC, a Needham, Mass., hat and winter-cap maker with four employees and roughly \$1 million in annual sales, has about 15 customer accounts that are more than 100 days late.

"It's very difficult for us," Mr. Goldberg says. "We have bills that we need to pay, and now we fall into the cycle of paying our bills late."

Many small companies, seeing more payment problems ahead, are taking steps to reduce their risk. Ms. Townsel has begun charging clients a couple of thousand dollars as a down payment on services, and later this month she will begin charging a 10% penalty on late balances.

[Digital Blue Inc.](#), a Marietta, Ga., maker of children's electronic products with \$100 million in annual sales, says about 60% of its clients are paying late, with the arrears averaging about 10 days.

In recent months, the company has restricted the amount of credit it extends to about 20% of its customers. One company that spent about \$2 million annually with Digital Blue had its bond rating reduced to "junk" in August, and Digital Blue has since demanded payment up from.

In the past few months, Digital Blue has also seen a sharp increase in customers who claim they didn't receive shipments or had a problem with their orders, says Chief Executive Tim Hall.

The company has reduced inventory for this holiday season because of all the late payments and is bracing for a worsening financial situation over the next five quarters.

Mr. Hall says he believes at least a couple of the company's retail customers will be out of business after the holiday season.

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